

**H2O FOR LIFE**  
**(A NONPROFIT CORPORATION)**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED**  
**JUNE 30, 2011**

H2O FOR LIFE  
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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
H2O for Life  
White Bear Lake, Minnesota

We have audited the accompanying statement of financial position of H2O for Life (the Organization), a Minnesota nonprofit corporation, as of June 30, 2011 and the related statements of activities, functional expense and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2011 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

ABDO, EICK & MEYERS, LLP  
Certified Public Accountants

November 7, 2011  
Apple Valley, Minnesota

## FINANCIAL STATEMENTS

H2O FOR LIFE  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2011

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 116,182
Pledges receivable	56,465
Inventory - promotional items	16,330
Prepaid expenses	<u>2,728</u>
TOTAL CURRENT ASSETS	<u>191,705</u>
PROPERTY AND EQUIPMENT	
Computer equipment	9,651
Furniture and fixtures	11,928
Leasehold improvements	<u>1,208</u>
TOTAL PROPERTY AND EQUIPMENT	22,787
LESS ACCUMULATED DEPRECIATION	<u>(6,373)</u>
TOTAL PROPERTY AND EQUIPMENT, NET	<u>16,414</u>
FEDERAL TRADEMARK, NET OF ACCUMULATED AMORTIZATION OF \$250	<u>4,758</u>
TOTAL ASSETS	<u>\$ 212,877</u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 13,764
Pledges payable	<u>122,576</u>
TOTAL LIABILITIES	<u>136,340</u>
NET ASSETS	
Unrestricted	(3,463)
Temporarily restricted	<u>80,000</u>
TOTAL NET ASSETS	<u>76,537</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 212,877</u>

See Independent Auditor's Report and Notes to Financial Statements.

H2O FOR LIFE  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011

	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND OTHER SUPPORT</b>			
Contributions and grants	\$ 578,876	\$ 80,000	\$ 658,876
In-kind donations	31,200	-	31,200
Special events, net of direct expenses of \$46,244	73,374	-	73,374
Interest income	86	-	86
Net assets released from restrictions	7,028	(7,028)	-
<b>TOTAL REVENUE AND OTHER SUPPORT</b>	<b>690,564</b>	<b>72,972</b>	<b>763,536</b>
<b>EXPENSES</b>			
Program services	664,438	-	664,438
Management and general	89,682	-	89,682
Fundraising	62,318	-	62,318
<b>TOTAL EXPENSES</b>	<b>816,438</b>	<b>-</b>	<b>816,438</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>(125,874)</b>	<b>72,972</b>	<b>(52,902)</b>
<b>NET ASSETS, JULY 1</b>	<b>122,411</b>	<b>7,028</b>	<b>129,439</b>
<b>NET ASSETS, JUNE 30</b>	<b>\$ (3,463)</b>	<b>\$ 80,000</b>	<b>\$ 76,537</b>

See Independent Auditor's Report and Notes to Financial Statements.

H2O FOR LIFE  
STATEMENT OF FUNCTIONAL EXPENSE  
YEAR ENDED JUNE 30, 2011

	Program Services	Management and General	Fundraising	Total Expenses
<b>EXPENSES</b>				
Salaries and wages	\$ 94,241	\$ 56,545	\$ 37,696	\$ 188,482
Payroll taxes and benefits	6,630	3,978	2,652	13,260
Grants	416,509	-	-	416,509
Bank service charges	3,073	3,072	-	6,145
Office expenses	10,833	1,355	1,355	13,543
Postage and shipping	2,803	351	351	3,505
Multimedia educational design expenses	38,295	-	2,016	40,311
Rent	9,457	3,153	3,153	15,763
Contracted services	-	17,989	-	17,989
Conferences, conventions and meetings	16,562	-	1,840	18,402
Travel	45,876	-	5,097	50,973
Marketing	12,933	-	5,543	18,476
Depreciation and amortization	3,117	1,870	1,246	6,233
Miscellaneous	4,109	1,369	1,369	6,847
<b>TOTAL EXPENSES</b>	<b>\$ 664,438</b>	<b>\$ 89,682</b>	<b>\$ 62,318</b>	<b>\$ 816,438</b>

See Independent Auditor's Report and Notes to Financial Statements.

H2O FOR LIFE  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2011

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Decrease in net assets	\$ (52,902)
Adjustment to reconcile decrease in net assets to net cash used by operating activities:	
Depreciation and amortization	6,233
(Increase) decrease in assets:	
Pledges receivable	(15,261)
Employee receivable	272
Inventory - promotional items	(9,130)
Prepaid expenses	5,916
Increase (decrease) in liabilities:	
Accounts payable	13,764
Pledges payable	54,644
Accrued liabilities	<u>(11,467)</u>
 <b>NET CASH USED BY OPERATING ACTIVITIES</b>	 <u>(7,931)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Cash outlay for property and equipment	(17,840)
Cash outlay for federal trademark	<u>(1,575)</u>
 <b>NET CASH USED BY INVESTING ACTIVITIES</b>	 <u>(19,415)</u>
 DECREASE IN CASH AND CASH EQUIVALENTS	 (27,346)
 CASH AND CASH EQUIVALENTS, JULY 1	 <u>143,528</u>
 CASH AND CASH EQUIVALENTS, JUNE 30	 <u>\$ 116,182</u>
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>	
Cash paid during the year for:	
Interest	<u>\$ -</u>
Income taxes	<u>\$ -</u>
 <b>SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES</b>	
Receipt of management services through in kind donation	<u>\$ 31,200</u>

See Independent Auditor's Report and Notes to Financial Statements.

H2O FOR LIFE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization**

H2O for Life (the Organization) was organized as a Minnesota nonprofit corporation in 2007. The Organization partners with schools, youth groups, businesses, faith organizations, clubs and individuals with schools in developing nations in need of water, sanitation and hygiene education (WASH in Schools). The Organization aims to help students build an allegiance to and an understanding of their partner school through curriculum and experiential learning while raising funds for WASH in Schools projects.

**B. Statement Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting with revenue being recorded when earned and expenditures recorded when the obligation is incurred or the benefits are received. Net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met by actions of the Organization and/or the passage of time.

Revenue is reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as net assets released from restrictions.

**C. Cash and Cash Equivalents**

For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less are considered to be cash equivalents. Certain cash accounts are insured by the FDIC.

**D. Pledges Receivable**

Pledges are recognized when a donor makes an unconditional promise to give to the Organization. Pledges receivable consists of gross pledges which management believes to be equivalent to the net present value of such pledges. Management expects to collect the outstanding pledges within the next year and no allowance for doubtful pledges is necessary.

**E. Inventory – Promotional Items**

Inventory consists of clothing and novelty items used to promote and support the Organization's programs, and are stated at average cost.

H2O FOR LIFE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**F. Property and Equipment**

Property and equipment is recorded at cost or estimated fair value at the date of contribution. The Organization capitalizes all property and equipment acquisitions in excess of \$1,000. Depreciation is recognized using the straight-line method based on estimated useful lives as follows:

Assets	Useful Lives in Years
Computer equipment	3
Furniture and fixtures	5 – 10
Leasehold improvements	2

**G. Intangible Assets**

Costs incurred in connection with obtaining a federal trademark for the Organization’s logo with the U.S. Patent Office are being amortized over a period of 20 years using the straight-line method. Renewal costs, which extend the life of the federal trademark for an additional 20 years, are capitalized and amortized over future periods. The next renewal date is June 28, 2031.

**H. Pledges Payable**

Pledges payable consist of grants awarded to recipient organizations outside the United States not yet distributed. Distribution of approved grants will take place within one fiscal year.

**I. In-Kind Contributions**

Contributions of gifts in-kind that can be used or sold by the Organization are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

**J. Functional Allocation of Expenses**

The costs of providing the Organization’s various programs have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**K. Income Taxes**

The Organization is exempt from income tax under section 501(c)(3) of the Internal Revenue Code. It has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code. Contributions to the Organization are tax deductible as the Organization qualifies under Section 170(c) of the Internal Revenue Code.

The Organization has evaluated for uncertain tax positions. Management has expressed that there are no uncertain tax positions as of June 30, 2011. The Organization’s tax returns are subject to possible examination by the taxing authorities. For federal tax purposes the tax returns essentially remain open for possible examination for a period of three years after the date on which those returns are filed.

During the year ended June 30, 2011, the Organization has not incurred any interest or penalties on its tax returns.

H2O FOR LIFE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**L. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

**M. Impairment of Long-Lived Assets**

The Organization reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

**N. Subsequent Events**

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 7, 2011, the date the financial statements were available to be issued.

**Note 2: TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes or periods:

Temporarily restricted net assets, July 1	\$ 7,028
Additions to assets temporarily restricted for purpose	80,000
Total releases from temporary restrictions, purpose restriction accomplished	<u>(7,028)</u>
Temporarily restricted net assets, June 30	<u>\$ 80,000</u>

**Note 3: LEASES – OPERATING AND RELATED PARTY TRANSACTIONS**

On May 14, 2010, the Organization entered into a lease agreement for office space in White Bear Lake, Minnesota. The lease commenced on July 1, 2010 and is set to expire on August 31, 2012. Terms of the lease agreement were monthly payments of base rent of \$0 through August 31, 2010 and \$1,576 through August 31, 2012. The Organization's President is a family member of one of the owners of the office space.

Future minimum lease payments are as follows:

Year Ended	Amount
2012	\$ 18,915
2013	<u>3,153</u>
Total	<u>\$ 22,068</u>

The Organization's total rent expense for the year ended June 30, 2011 was \$15,763.

H2O FOR LIFE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**Note 4: IN-KIND CONTRIBUTIONS**

The Organization received the following in-kind contributions during the year ended June 30, 2011:

Management services	<u>\$ 31,200</u>
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